

California's Budget Challenge

Where We Are

And

How We Got Here



California's Budget Challenge: Where We Are

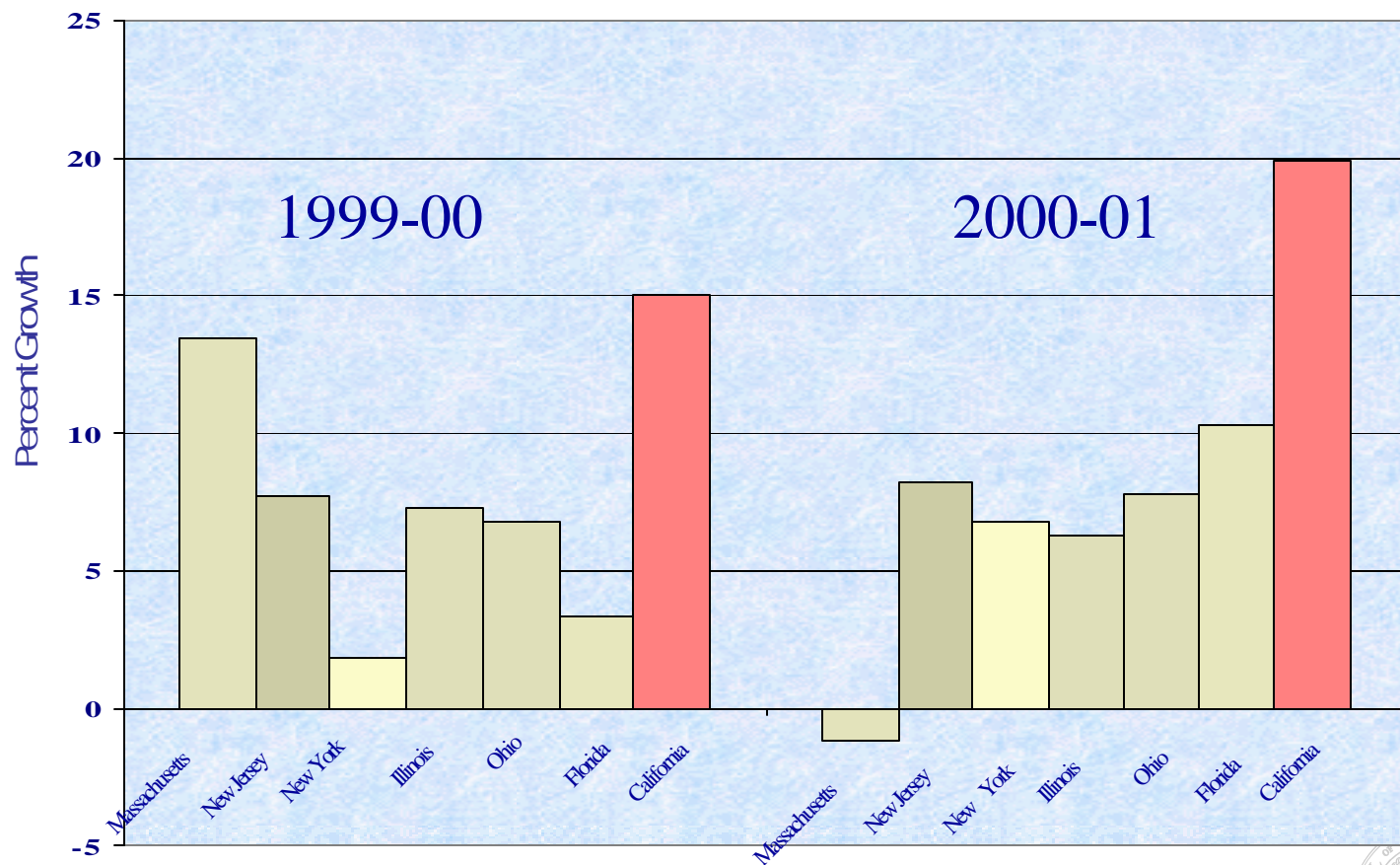
- Current Budget Overspends By \$9 Billion
- Budget Shortfall \$12.5 Billion Over Two Years
- California Credit Rating Downgraded



California's Budget Challenge: How We Got Here

First Two Years:

Double Digit Spending Growth Highest of Largest States



Source data: *The Fiscal Survey of States*

*Comparable information not available for Texas. The state operates on a biennial budget and single-year amounts were not disaggregated.

However, the biennial growth between fiscal year 1998 and 2001 is approximately 5 percent.

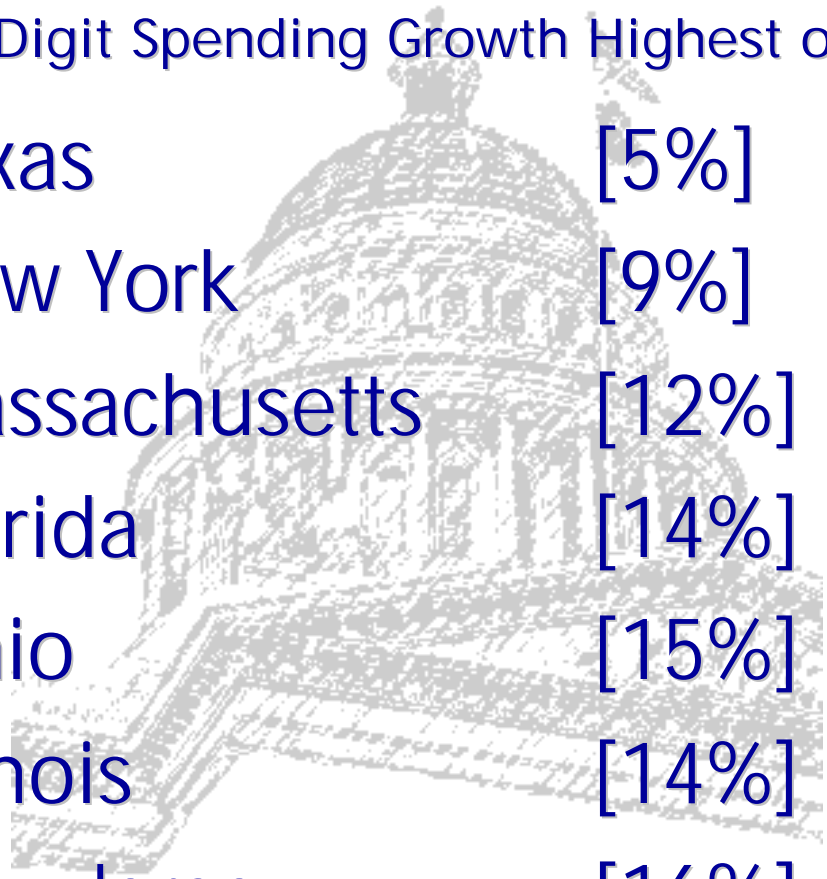


California's Budget Challenge:

How We Got Here

First Two Years:

Double Digit Spending Growth Highest of Largest States



■ Texas	[5%]
■ New York	[9%]
■ Massachusetts	[12%]
■ Florida	[14%]
■ Ohio	[15%]
■ Illinois	[14%]
■ New Jersey	[16%]
■ California	[35%]



California's Budget Challenge:

How We Got Here

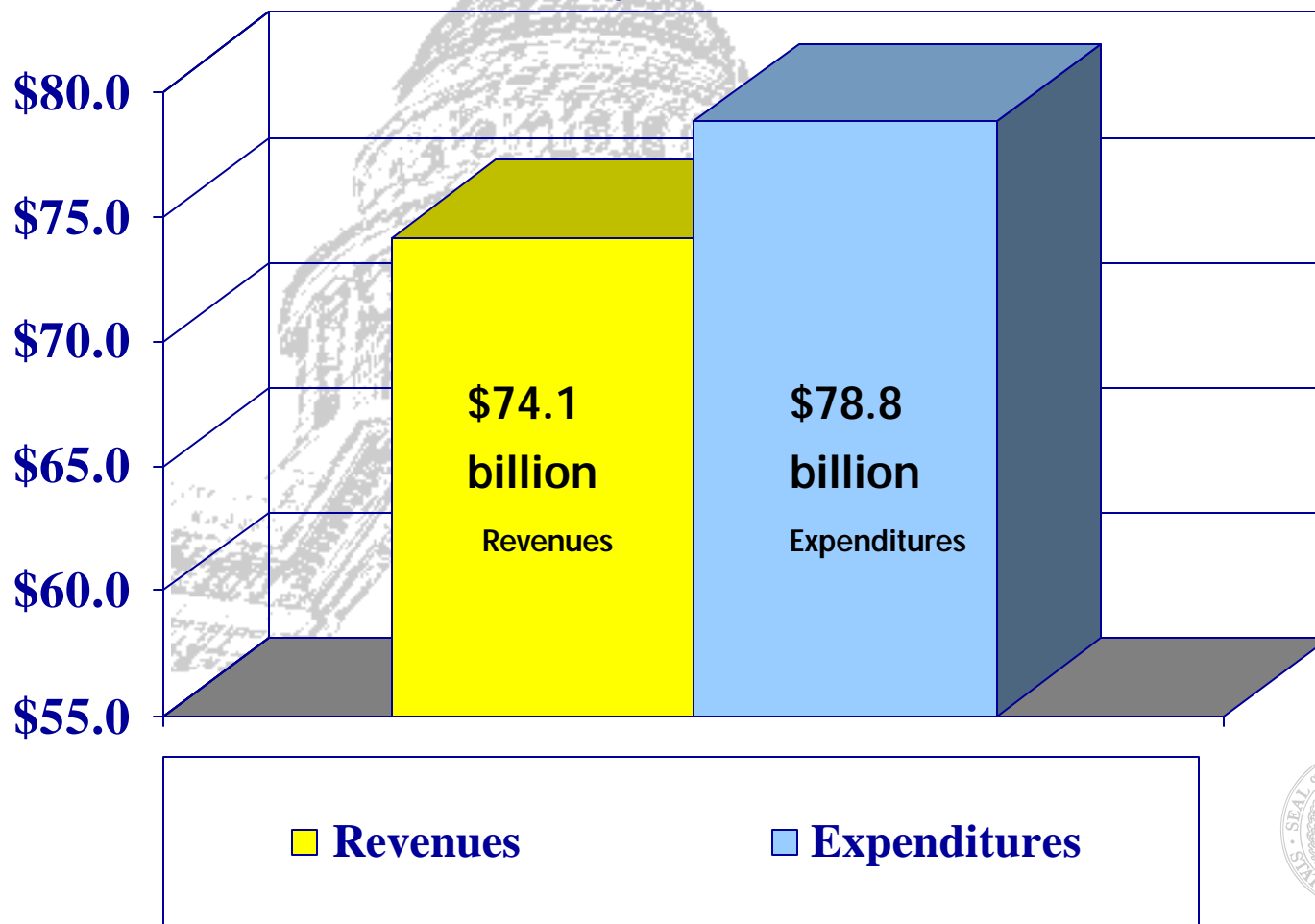
Economy Warnings Long Before 9/11

- December 2000: UCLA Forecasts Recession -- California Vulnerable
- April: Federal Reserve Says State Will Be Hit Harder
- April-May: Wall Street Lowers State's Credit Rating
- June: UCLA -- Davis Energy Response Adds Debt, Unemployment



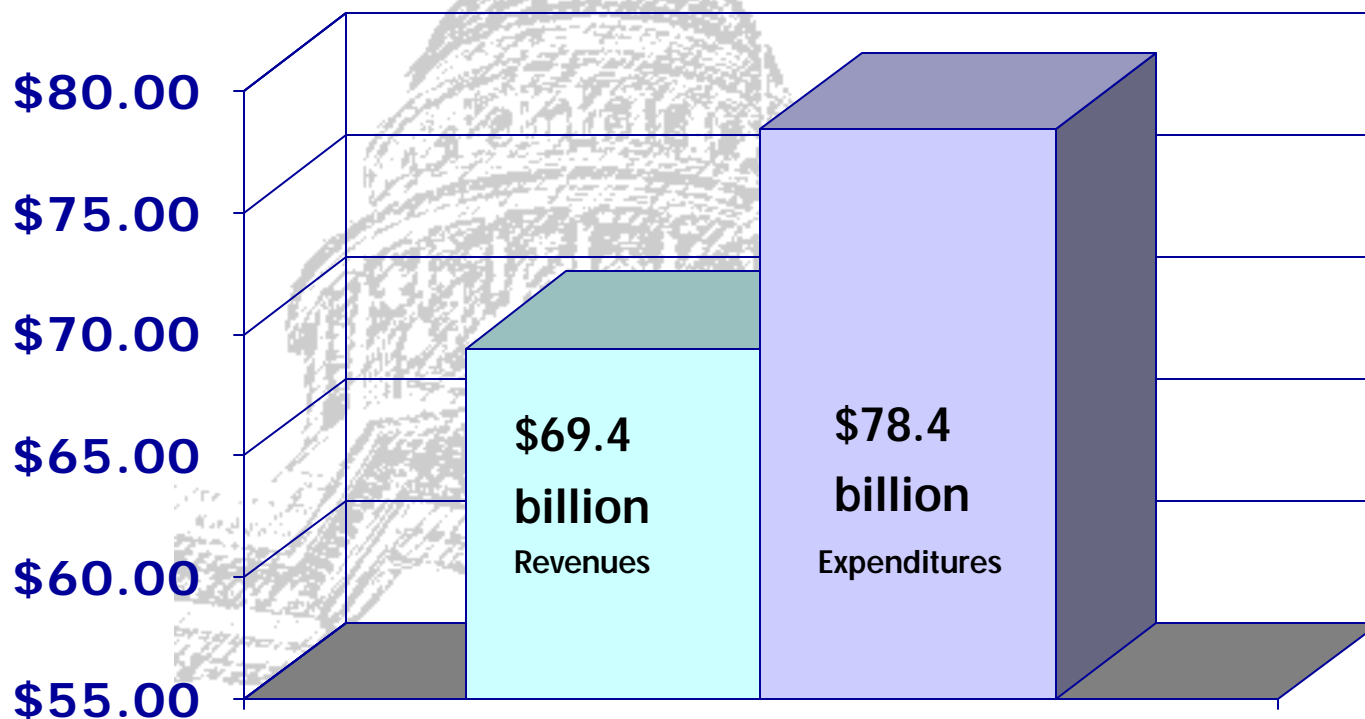
California's Budget Challenge: Where We Are

2001-2002 Budget Spends More Than It Takes In
July 2001 Estimate



California's Budget Challenge: Where We Are

2001-2002 Budget Spends More Than It Takes In
January 2002 Re-Estimate



■ Revenues

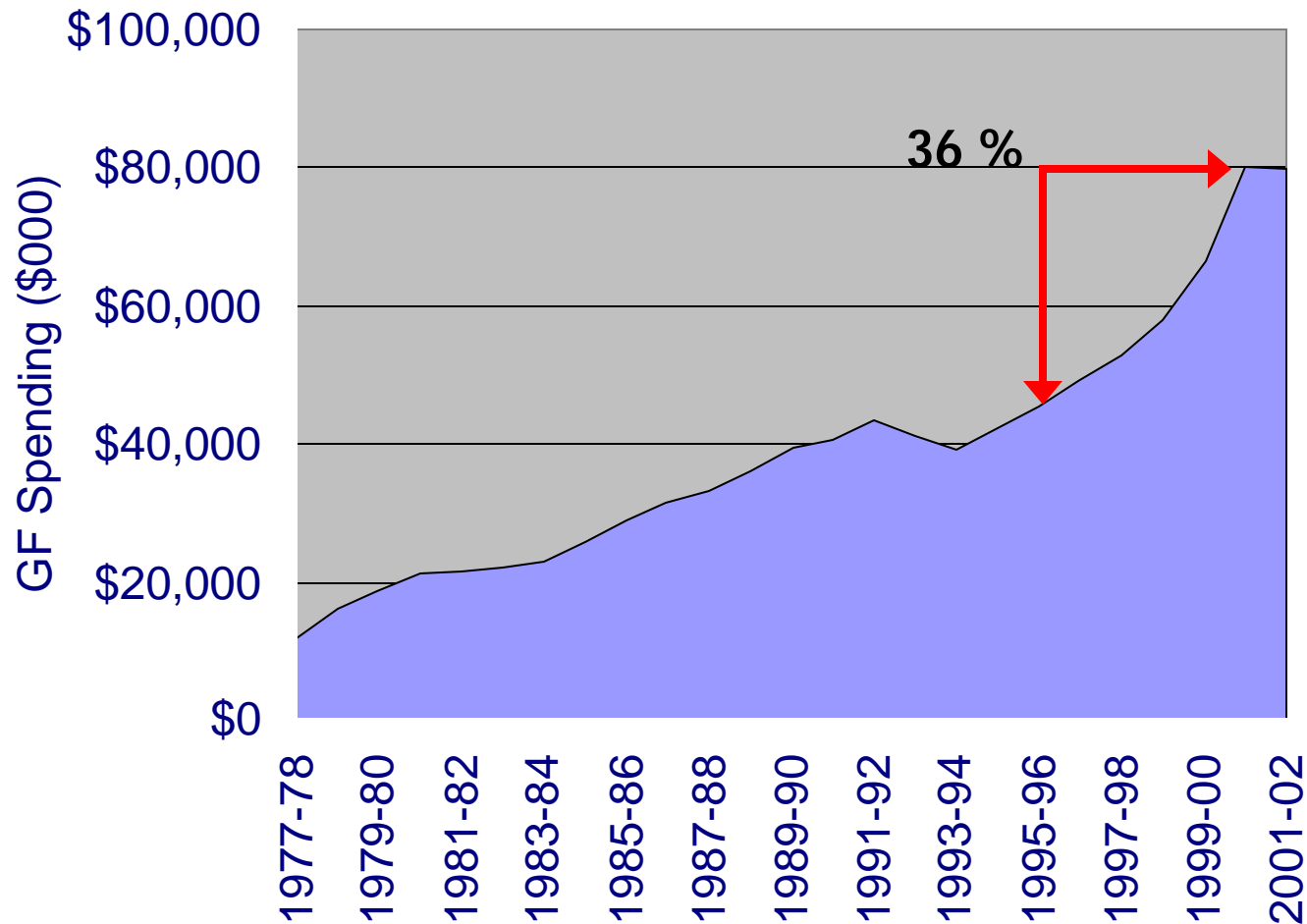
■ Expenditures



California's Budget Challenge:

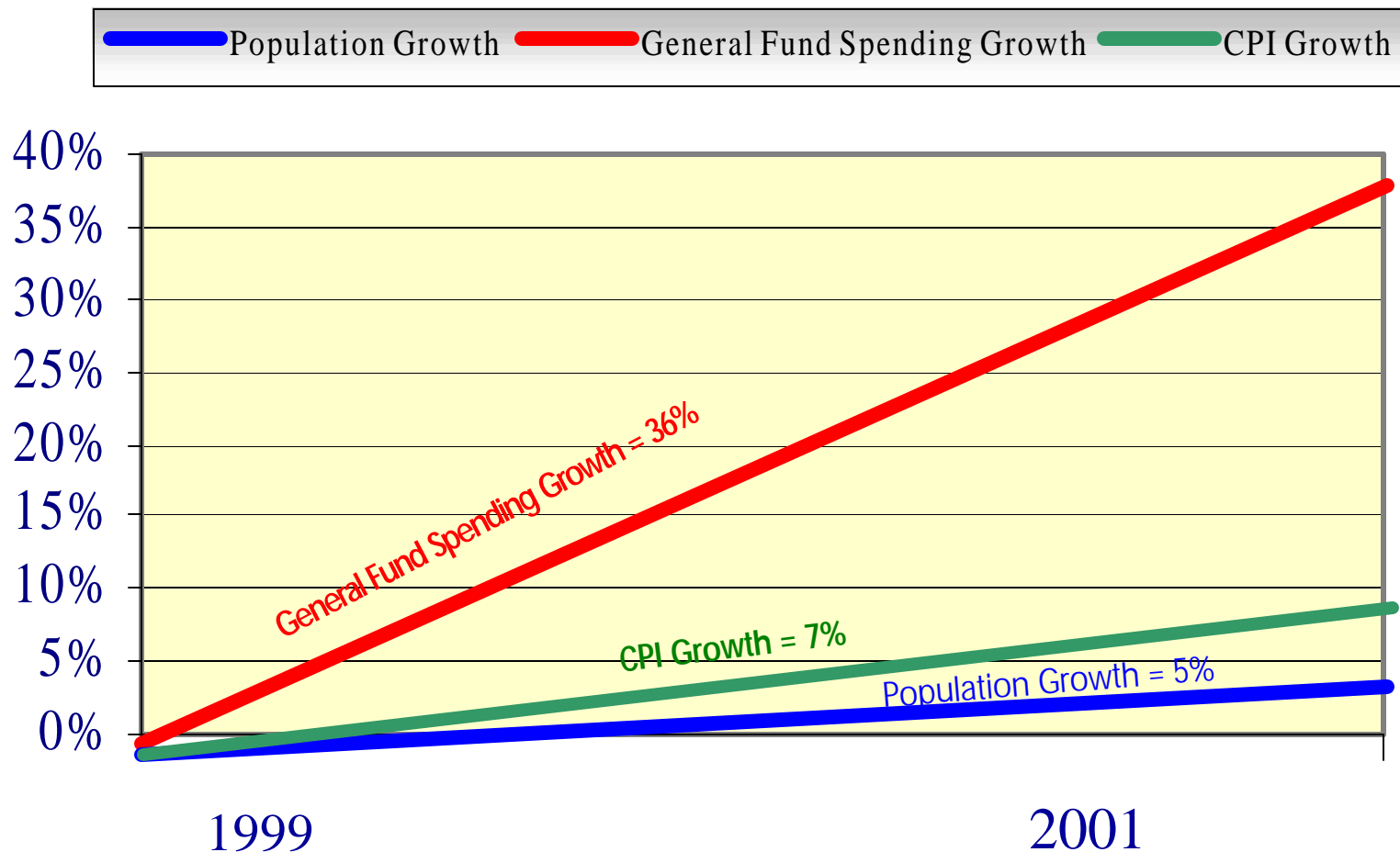
Where We Are

36% Spending Growth During Davis Administration



California's Budget Challenge: Where We Are

Inflation and Population Vs. Spending Growth



California's Budget Challenge: Where We Are

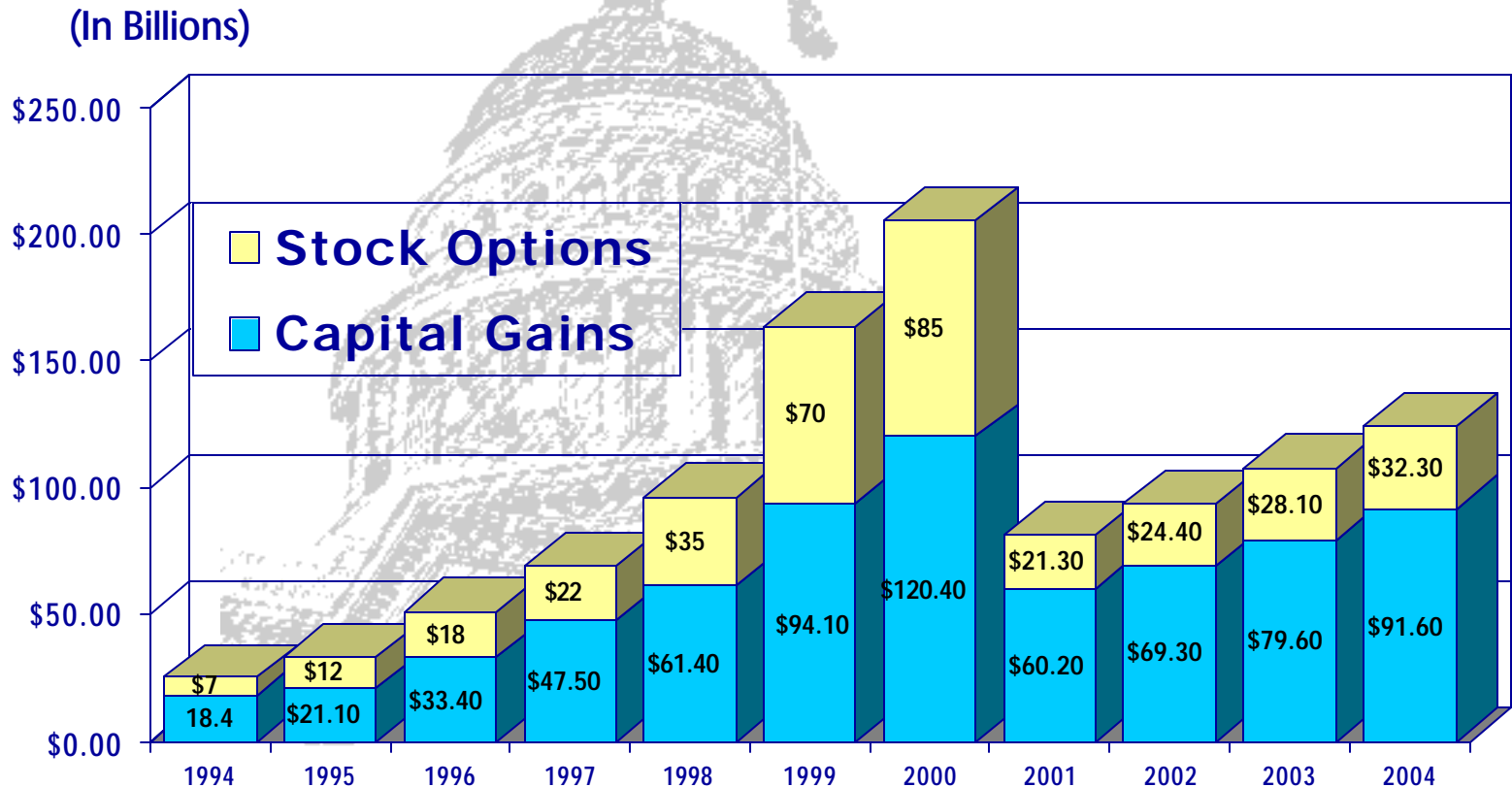
- Budgets Built On Volatile Revenue Source
- 2000: Stock Options = 13% Of California Personal Income
- Seven California Tech Firms = 50 Percent Of Options Income



California's Budget Challenge:

Where We Are

Capital Gains and Stock Options Tumble in 2001



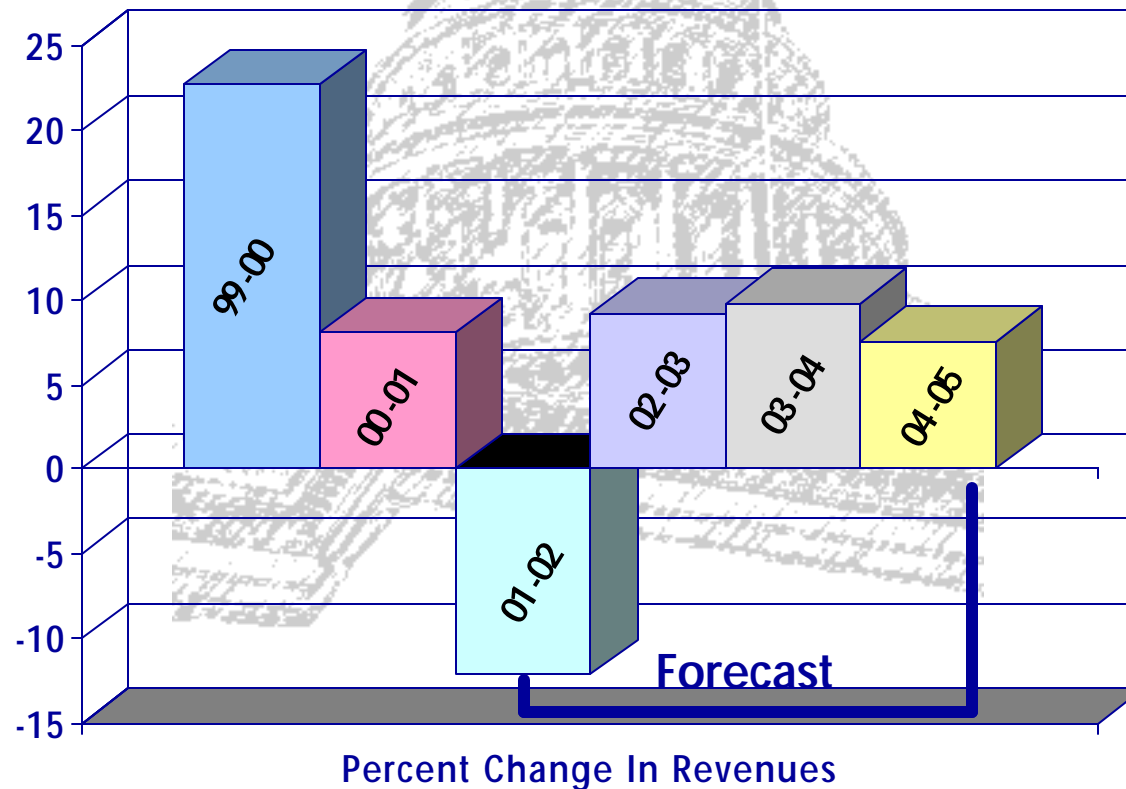
Source: LAO Fiscal Outlook Projections through 2006-2007; November 2001



California's Budget Challenge: Where We Are

Revenues Plunge In 2001-2002

Annual Percent Change in General Fund Revenues



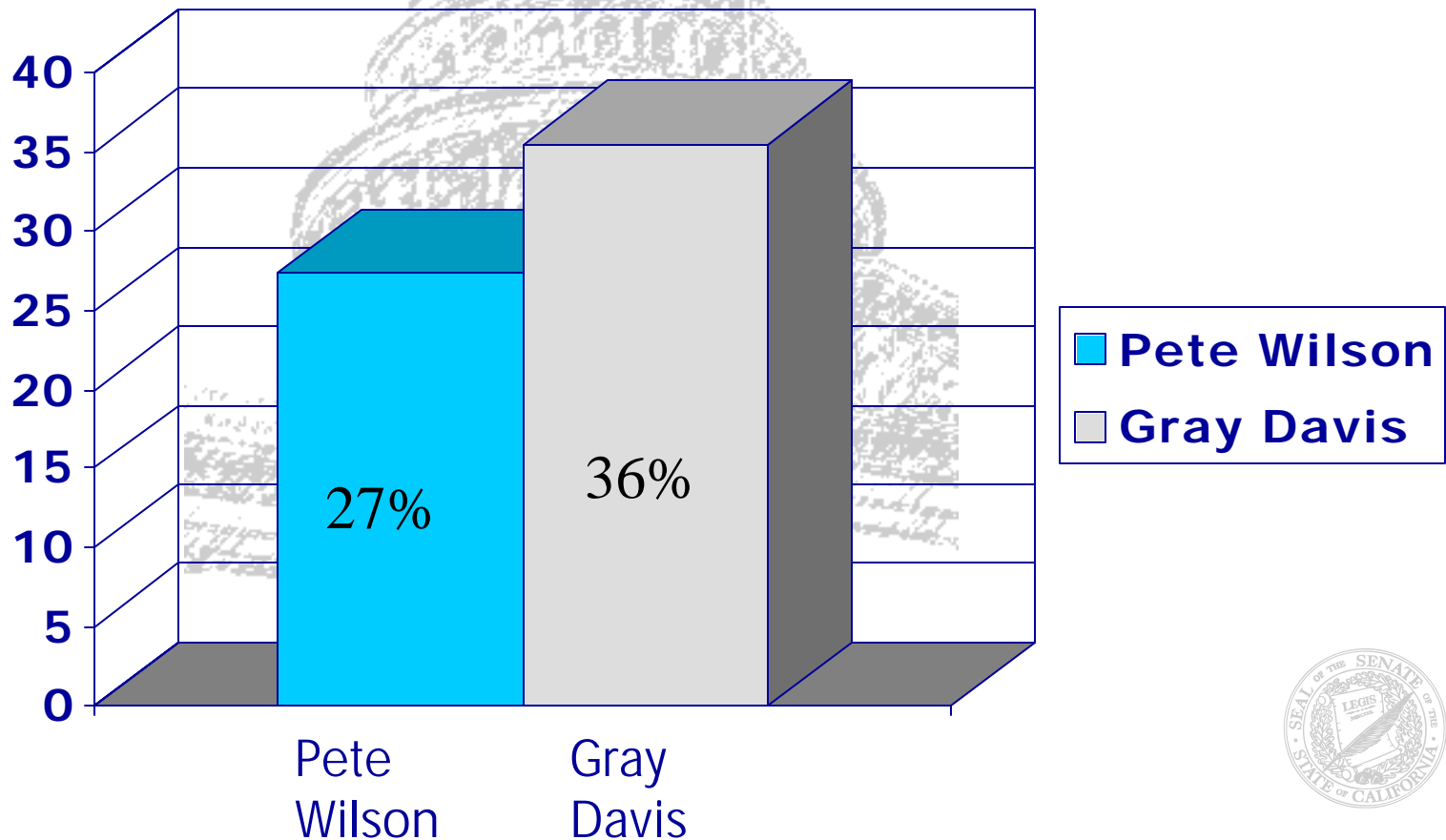
Source: LAO Fiscal Outlook Projections through 2006-2007; November 2001



California's Budget Challenge:

Where We Are

Total General Fund Increase in the last 3 years of Wilson and first 3 years of Davis



California's Budget Challenge: Zero-Based Budgeting

- Traditional Budgeting: Prior year level plus growth & inflation
- Zero-Based Budgeting: Start every year from zero & justify
- Forces focus on savings & efficiency
- With term limits and turnover, even more important

